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February 7, 2020

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Petition of Duke Energy Progress for an Accounting Order to Defer Incremental Storm Damage Expenses from Hurricane Florence and Hurricane Michael, and to Continue Previously Authorized Storm Deferrals Docket Number 2019-26-E

Dear Ms. Boyd:

Enclosed for filing please find the Petition of Duke Energy Progress, LLC to Add Incremental Costs Associated With Hurricane Dorian to the Storm Balances Addressed by the Commission's Accounting Order Number 2019-126 for Future Recovery.

Sincerely,

Heather Shirley Smith

Enclosure

cc: Nanette Edwards, Office of Regulatory Staff
Dawn Hipp, Office of Regulatory Staff
Jeffery M. Nelson, Esq. Office of Regulatory Staff
Becky Dover, Esq., SC Department of Consumer Affairs
Carri Grube Lybarker, Esq., SC Department of Consumer Affairs

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2019-26-E

In re:)	PETITION OF DUKE ENERGY
)	PROGRESS, LLC TO ADD
Petition of Duke Energy Progress)	INCREMENTAL COSTS
for an Accounting Order to Defer Incremental)	ASSOCIATED WITH HURRICANE
Storm Damage Expenses from Hurricane)	DORIAN TO THE STORM
Florence and Hurricane Michael, and to)	BALANCES ADDRESSED BY THE
Continue Previously Authorized Storm)	COMMISSION'S ACCOUNTING
Deferrals)	ORDER NUMBER 2019-126 FOR
)	FUTURE RECOVERY

Duke Energy Progress, LLC (“DE Progress” or the “Company”) hereby respectfully petitions the Public Service Commission of South Carolina (the “Commission”) pursuant to S.C. Code Ann. Sections 58-3-140, 58-27-140, and 58-27-1540, S.C. Code Ann. Regs. 103-825, and other applicable rules and regulations of the Commission, for an accounting order for regulatory and financial accounting purposes to defer significant costs incurred in connection with Hurricane Dorian, and add the balance of such regulatory asset to the balances addressed by Commission Order No. 2019-126, which addresses the Commission’s treatment of storm balances relating to Hurricanes Florence, Michael, Matthew, and certain ice storms.

The request for relief set forth herein will not involve a change to any of DE Progress’s retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition. In support of

this Petition, DE Progress respectfully shows the Commission the following facts, and petitions the Commission for the following relief:

Name and Address of the Company

The correct name and post office address of the Company are:

Duke Energy Progress, LLC
410 S. Wilmington Street
Raleigh, NC 27602

Notices and Communications

The name and addresses of the attorneys of DE Progress who are authorized to receive notices and communications with respect to this Petition are:

Heather Shirley Smith, Deputy General Counsel
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Duke Energy Progress, LLC
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and

Frank R. Ellerbe, III
ROBINSON GRAY, LLC
Post Office Box 11449
Columbia, SC 29211
Telephone: 803.227.1112
fellerbe@robinsongray.com

Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.

Description of the Company

DE Progress is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the northeastern portion of South Carolina, a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont sections of North Carolina, and areas in western North Carolina in and around the city of Asheville. The Company also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities, and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. DE Progress is a corporation organized and existing under the laws of North Carolina, is authorized to transact business in the State of South Carolina, and is a public utility under the laws of South Carolina. Accordingly, its operations in South Carolina are subject to the jurisdiction of the Commission pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Background

Hurricane Dorian

On August 23, 2019, a low-pressure system that would ultimately become Hurricane Dorian formed over the Central Atlantic. The system strengthened to a tropical storm on August 25 and developed into a hurricane on August 28. Over the next four days, Hurricane Dorian rapidly intensified and reached its peak as a Category 5 hurricane with sustained winds of 185 miles per hour and gusts over 200 miles per hour as it made landfall and devastated the Bahamas. On August 31, 2019, citing the strength and unpredictability of the storm, Governor Henry McMaster issued an executive order declaring a state of emergency, ordered evacuation for approximately 830,000 people from the coast of South Carolina, reversed interstate lanes, and urged South Carolinians to prepare for significant impacts to the State.

Based on the projected path of Hurricane Dorian, and as the storm's track shifted closer to the North and South Carolina coasts, the Company started its planning efforts for resources and staging sites. For these types of major events, the Company utilizes a predictive model that provides ranges of customer outages and resources needed to restore power in a reasonable amount of time. The Company's predictive model indicated the storm would have a significant impact on the coasts of North and South Carolina. The model is run periodically as a storm approaches, and as late as the morning of September 4, 2019, the model indicated the possibility of approximately 250,000 customer outages in South Carolina. In preparation for responding to that magnitude of outages, the Company began securing resources and staging sites in South Carolina on September 2, 2019. Because the storm was expected to have significant impacts on the Carolinas, it was crucial to secure resources and position them inland in a safe location prior to the storm's landfall so that crews could begin restoration work as quickly and safely as possible.

Dorian eventually impacted the Carolinas as a powerful and slow-moving Category 2 hurricane on September 5, 2019, bringing high winds and producing tornadoes and heavy rain. Thankfully, Dorian weakened as it moved northeast along the North Carolina coast, just south of the Crystal Coast, clipping Cape Lookout and eventually making landfall at Cape Hatteras.

Hurricane Dorian was predicted to cause extensive damage and widespread outages to DE Progress's distribution system, and the Company prepared accordingly. In response to Dorian, the Company arranged for additional off-system linemen and support from Alabama, Arkansas, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Jersey, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Wisconsin, and Canada to assist with the restoration efforts. To support these efforts, the Company provided housing and logistical operations support for nearly 9,000

employees, allies, and contractors in forward deployed areas directly impacted by the hurricane. DE Progress housed thousands of these utility workers at several staging sites, which included serving meals, providing sleeping accommodations, and fueling vehicles. DE Progress aimed to facilitate the allocation and mobilization of restoration resources to the impacted areas immediately after Hurricane Dorian passed, and the Company's preparation plans were adjusted day-by-day based on the predictive model. After the storm passed, DE Progress released those crews and resources who were not involved in restoration efforts.

The total number of DE Progress customers impacted during Hurricane Dorian was 295,175 (267,962 in North Carolina and 27,214 in South Carolina). The peak number of customer outages for DE Progress in the Carolinas was approximately 116,131, which occurred on Friday, September 6, 2019 at 8:03 a.m. Due to the preparation efforts of planning, securing and staging resources, the Company restored service to more than 95 percent of DE Progress's customers within 48 hours. As of September 9, 2019, full restoration was accomplished for all customers able to receive service.

Requested Relief

DE Progress respectfully requests that the Commission issue an accounting order authorizing the Company to defer in a regulatory asset account the incremental costs incurred in connection with Hurricane Dorian, consistent with the Commission's prior accounting order on storm expenses, Order No. 2019-126, issued in this docket. As with the deferred costs addressed by Order No. 2019-126, the Company plans to explore alternative options for recovery of these deferred balances such as securitization. If the Company is unable to secure a suitable, alternative recovery mechanism that results in customer savings, then the Company, at that point, will need to seek recovery through more traditional mechanisms in a future rate case.

The Company's total incremental costs charged to O&M expense to prepare, repair, and restore its system in South Carolina following Hurricane Dorian are expected to total approximately \$22 million. These amounts are still being finalized and are not included in DE Progress's current rates. As described above, DE Progress secured resources and established staging sites prior to landfall in order to ensure the Company was prepared to begin restoration efforts as quickly and safely as possible after the hurricane passed. The Company estimates that those preparation efforts amount to \$13 million of the total \$22 million. These amounts are estimated at this point and will be accumulated from the actual invoices for line workers, tree professionals, materials, and staging, and logistics received from all of the various vendors. Invoices will continue to be received, validated, and paid over the next several months, as is common with major storms. The total incremental cost above is the Company's best estimate at this point and will be trued-up with final amounts expected to be known by mid-2020.

The Company believes these requests are consistent with the case law and policy in this State. The Commission has historically authorized accounting deferrals for incremental storm costs, such as in Order No. 2004-367(A), Docket No. 2004-55-E (Oct. 8, 2004), *Amended Order Approving Petition to Amortize Storm Damage Expenses*. In that docket, DE Progress requested an accounting order allowing it to defer and amortize certain storm damage expenses incurred to restore and/or replace property damaged or destroyed by an ice storm in January 2004. The Commission concluded that the approval of the requested accounting treatment was in keeping with Condition No. 34 contained in the Commission Order No. 2000-229 in Docket No. 1999-434-E/C, which allows DE Progress to request a deferred account for major expenditures to restore or replace property damaged or destroyed by *force majeure*. The Commission has also authorized storm deferrals in recent years, including in Order No. 2017-52, Docket No. 2016-408-E (Jan. 24,

2017), *Accounting Order Deferring Incremental Storm Damage Expenses Resulting from Hurricane Matthew*. In that petition, DE Progress requested an accounting order allowing it to defer and amortize certain storm damage expenses incurred to restore and/or replace property damaged or destroyed by Hurricane Matthew. The Commission concluded that the approval of the requested accounting treatment was consistent with the public interest and authorized DE Progress to defer (a) the incremental operation and maintenance expenses and (b) the depreciation expense and carrying costs at its weighted average cost of capital on the incremental capital cost, as well as the carrying costs on the deferred costs incurred in connection with Hurricane Matthew. Likewise, in Order No. 2015-62, Docket No. 2014-482-E (Jan. 21, 2015), *Order Approving Petition for an Accounting Order to Deferr Incremental Storm Damage Expenses Incurred as a Result of the Snow and Ice Storms in the First Quarter of 2014*, the Commission approved incremental operations and maintenance expenses to repair and restore the Company's system. The Commission also allowed the continuation of the deferral of costs associated with Hurricanes Florence and Michael and extended the approved deferrals for the 2014 storms and Hurricane Matthew in this Docket in Order No. 2019-126. The deferral requested in this petition is markedly similar to the previous deferrals authorized by the Commission.

The Company's request will not involve a change to any DE Progress rates at this time, or to any Commission rule, regulation or policy. In addition, issuance of the accounting order does not prejudice any party's right to address this issue in a subsequent general rate case proceeding. Therefore, DE Progress respectfully requests that the Commission issue an accounting order, without notice and hearing, approving the Company's Petition.¹

¹ Given that there is no rate change requested in this Petition, the requirements of notice and hearing contained in S.C. Code Ann. Sec. 58-27-870 do not apply.


Financial Consequences of this Request

In its quarterly financial report filed with the Commission for the third quarter of 2019, DE Progress reported an annual return on common equity of 6.00 percent adjusted, for the twelve months ending September 2019. On an adjusted basis, the Company's rate of return on jurisdictional common equity is less than the 9.5 percent approved by the Commission in DE Progress's last general rate case in Docket No. 2018-318-E. Without approval of this deferral request, the Company will face additional earnings degradation of approximately 172 basis points for a resulting ROE of 4.28 percent. Approval of this deferral request will benefit the Company and its customers by helping to ensure investors' confidence in DE Progress, and helping to assure access to needed capital on reasonable terms and equitable treatment as to deferred costs and revenues. To mitigate the requested deferral's impact on customers, DE Progress is exploring alternative cost recovery methods that could result in customer savings. If the Company is not able to secure alternative cost recovery through other methods such as securitization, the Company will propose to amortize these deferred costs over a multi-year period in a subsequent rate case.

Conclusion

An accounting order granting the relief DE Progress seeks in this Petition will not preclude the Commission or any party from addressing the reasonableness of these deferred costs in the Company's next general rate proceeding or any Commission proceeding necessary to effectuate securitization, should any legislation be enacted which would permit securitization. Therefore, DE Progress petitions the Commission to authorize the Company to add to the regulatory asset the incremental expenses associated with Hurricane Dorian, consistent with the Commission's Order No. 2019-126 issued in this docket. DE Progress intends to continue exploring alternative options for recovery of these deferred balances.

Dated this 7th day of February, 2020.


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